

**MINUTES OF THE
TAX REVIEW COMMISSION**

Friday, May 12, 2000 - 2:00 p.m. -- Room 405 State Capitol

Members Present:

Mr. Gary Cornia, Chair
Mr. James B. Lee, Vice-chair
Mr. Mark Buchi
Rep. Judy Ann Buffmire
Ms. Anne Clark
Rep. Greg J. Curtis
Sen. Lyle W. Hillyard
Ms. Bonnie Miller
Ms. Dorothy P. Owen
Sen. Millie M. Peterson
Mr. Keith Prescott

Members Excused:

Mr. Robert M. Graham
Comm. Bruce Johnson
Judge Jon Memmott

Staff Present:

Mr. Bill Asplund
Assistant Director
Ms. Rebecca L. Rockwell
Associate General Counsel
Ms. L. Kaye Clark
Secretary

Note: A list of others present and a copy of materials distributed in the meeting are on file in the Office of Legislative Research and General Counsel.

1. Call to Order and Approval of Minutes -- Vice-Chair Lee called the meeting to order at 2:10 p.m. and welcomed members of the Tax Review Commission (TRC).

MOTION: Sen. Hillyard moved to approve the minutes of the April 14, 2000 meeting. The motion passed unanimously. Mr. Buchi, Rep. Buffmire, Rep. Curtis, and Mr. Prescott were absent for the vote.

2. Tax Simplification - Sales and Use Tax - Scott Mackey, Chief Economist, National Conference of State Legislatures (NCSL), distributed the handouts "Streamlined Sales Tax Administration System," "Status of State Legislation to Enable Multistate Sales Tax Simplification Discussions," and "Internet Taxation and State Sales Tax Simplification." He discussed Internet taxation issues including: (1) the threat to state revenue; (2) federal preemption; (3) e-commerce projections; (4) sales tax revenue implications; and (5) the impact on "Main Street" businesses. Mr. Mackey reported that the U.S. House of Representatives has voted to extend the moratorium on Internet access taxes for five years and will be holding hearings on sales tax and nexus carve outs. He noted that the major initiatives in the states include: (1) opposition to federal preemption; and (2) multistate discussions on sales tax simplification.

Mr. Mackey explained that sixteen states are currently participating in the Streamlined Sales Tax Simplification Project (Project). He reviewed the following state tax simplification issues being addressed by the Project: (1) sales tax rate issues; (2) sourcing rules; (3) privacy protection for buyers; (4) the role of "tax calculation services"; (5) software certification; (6) uniform definitions; (7) paying for systems to simplify sales and use taxes; (8) audit relief; and (9) exemption processing and administration. He said that in order for the Project to be successful,

states need to authorize multistate discussions, adopt a simplification model statute, and provide a database on rates to technology companies.

Mr. Mackey commented that NCSL considers Internet taxation a priority issue and is committed to fighting federal preemption. He responded to questions about multistate audits, tax calculation services, and administrative issues.

Ms. Rockwell recommended that the TRC review both 1999 General Session S.B. 178 and the NCSL model statute to determine if there are areas that overlap.

Michael Agee, Fidelity National Financial, presented information from the handout "Trusted Third Parties and Sales and Use Tax Collection." He discussed the erosion of sales and use tax revenues in Utah, and predicted an ongoing increase in lost tax revenues due to e-commerce. Mr. Agee reviewed the process and some of the benefits of shifting tax administration to a third party collector.

Jon Peha, Professor, Carnegie-Mellon University, discussed possible implementation of an intrastate third party collector program in Utah. Mr. Agee and Mr. Peha responded to questions regarding uniform rates, uniform definitions, and the cost of privatization.

Commissioner Palmer DePaulis, Utah State Tax Commission (Tax Commission), reviewed data regarding the fiscal impact of removing food from the sales and use tax base (see handout "Fiscal Impact of Removing Food"). He reported the state sales and use tax loss would be approximately \$142 million if food was removed from the sales and use tax base. Commissioner DePaulis also discussed the fiscal impact of 2000 General Session S.B. 59 at the local level including an increase of the local sales and use tax rate to 1.1% and an increase of the state sales and use tax rate to 5.25%. Doug Macdonald, Tax Commission, reported that projections show an \$85 million incremental revenue loss due to e-commerce.

The TRC discussed with Mr. Macdonald and Commissioner DePaulis e-commerce issues including computer programs to track personal Internet purchases, the need for education regarding the use tax, vendor collection burdens, privacy concerns, and fairly allocating sales and use tax revenues to communities. The TRC also discussed how this information relates to Governor Leavitt's study request and possible ways to reduce the burden of sales and use taxes on food including a refundable individual income tax credit.

3. State Demographics - Michael Christensen, Utah Foundation, presented information regarding population trends in Utah. He noted that since 1950 Utah's population is increasing 2 1/2 times faster than the nation as a whole. He reported that Utah has the: (1) youngest median age in the nation; (2) smallest percentage of working-age persons in the nation; and (3) highest

percentage of school-age persons in the nation. Mr. Christensen noted that public education expenditures account for 42% of all state expenditures.

The TRC discussed: (1) the impact of these population trends; (2) the importance of public and higher education in maintaining a strong workforce; and (3) reviewing earmarked funds.

4. Other Business - Vice-chair Lee noted that the TRC will meet on June 9, 2000, at 1:00 p.m.

Sen. Peterson suggested the TRC discuss the Delta Airlines property tax decision. Vice-chair Lee commented that the TRC will probably not have time to study this issue.

Sen. Hillyard asked the TRC to report to the governor and to the Executive Appropriations Committee by October or November with any recommendations regarding individual income tax rebracketing to address tax burden issues. This would allow the rebracketing changes to be included in the initial budget proposal.

5. Adjournment

MOTION: Chair Cornia moved to adjourn the meeting at 4:40 p.m.

